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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 5, 2009

SB 530, An Act Establishing A State Natural Catastrophe Fund

The Insurance Association of Connecticut opposes SB 530, An Act Establishing A State Natural Catastrophe Fund.

Although there is some disagreement, the clear majority of IAC's members believe there is no need to create such a state fund, as the property and casualty reinsurance marketplace has sufficient capacity to address the needs of insurers relative to managing their natural catastrophe risk.

Private reinsurance spreads risk across the global marketplace. For example, three-quarters of the reinsurance paid due to losses from Hurricanes Katrina, Rita and Wilma were paid by global insurers. A state catastrophe fund, especially in a small state like Connecticut, will not be able to broadly spread such losses. The risk of those losses would rather be focused on the state's insureds and taxpayers.

Florida is currently the only state with a state-run catastrophe reinsurance fund, and it provides a clear example of the real costs of such a fund.

When Florida's fund incurs catastrophic losses greater than its current balance, the Fund issues bonds. The bond debt is not paid by the insurers that purchased reinsurance from the fund. Rather, it is paid by assessing or taxing all Florida policyholders of other lines of property/casualty insurance, such as automobile and commercial insurance. Individuals and businesses far away from the coast are forced to pay surcharges on their policies to cover Fund shortfalls caused by inadequate premiums charged by the Fund.

In fact, the Florida Senate Banking and Insurance Committee issued a report in December, 2008, that indicated Florida's Fund is facing a potential $18.7 billion shortfall in its ability to meet its estimated 2009 obligations. Staff stated that current credit market issues will prevent the Fund from being able to sell enough bonds to meet those obligations.

If a state-run fund artificially underprices the private reinsurance market, business will likely flow to it. Not only will this serve to unfairly displace the competitive reinsurance marketplace, it will place a massive, counterproductive tax burden on the state's citizens when the ultimate bills become due.